Federal Perspective

Royalty Valuation and Management Conference
Rocky Mountain Mineral Law Foundation
Bonn J. Macy
February 4, 1998

s not new to MMS, the Federal Government e World

- e most primitive form of royalty
- ncept goes back to the Ancient Greeks
- royalties were originally paid "in-kind"

ent Kings could not develop their resources selves - so they contracted it out.

- royalty" was part of the deal struck with miners
  - A production share was delivered to the Crown in return for the right to mine.

Economic conditions changed...

- chnological + productivity advances
- w markets, monetary systems + changing labor

lid royalty collection...

- ative costs of different activities associated with yalty collection shifted
- oduction outstripped needs
- eds changed as economic/political systems changed
  - trade, mercantilism, growth of finance/moneylenders
  - advantages of money over physical production
- ecame more attractive to take royalties in CASH

Federal experience with royalties is e recent

- neral royalties were paid in value
- t RIK was explicitly recognized option

Secretary reserves the right to take lties in kind

- ady to do so when it makes sense for the Treasury
- d rarely has made sense in our peacetime economies

Now?

- r the last 25 years the economy has
  ged markedly - the "Information Age"
  - ecommunications, financial markets, computers
  - regulation, competition, etc
- so are the relative costs of royalty
  ction
  - eaper and easier for MMS to market the production
    - information is cheap, transactions quick and easy
  - sts of royalty verification, administration are relatively
    gher - more labor intensive

- ave the relative costs shifted enough?
- is behind the questions that MMS seeks to er with its RIK pilots
  - t economically efficient to take royalties in kind?
  - t accurate, simple and certain?- lowers admin cost
  - t revenue neutral?
  - Can we effectively market our production and enhance value?
- objective of Federal resource management maximize value to the taxpayer- can there be other reason?

nswer these questions, MMS is Prudently and
cientiously proceeding with RIK development
the last 4 years we've taken the time to look
earn before we leap
ere is a potential to lose money -
the 1995 Gas Pilot showed us that
ere is the potential to earn money -
the 1997 Feasibility Study showed us that
e've seen the pitfalls and the opportunities and
tter understand the factors that dictate RIK
ccess

- ogical next step for MMS was to proceed
  a larger, broader, more comprehensive test
- Feasibility Study recommended three pilots
  nplemented.
  - shore Oil pilot in Wyoming
  - all offshore gas pilot in 8(g) waters off Texas
  - fshore Gulf of Mexico gas pilot
- s chosen in areas when there was some
  ntial for success, State interest

- has put together a team of 15 people
  - presenting a broad cross-section of MMS divisions, ills and experience
- participation from BLM, other agencies, and ming and Texas
- king overtime to produce timely, efficient and tive pilots
  - Texas 8(g) gas pilot by Oct. 1, 1998
  - Wyoming Oil pilot by Oct. 1, 1998
  - offshore GOM gas pilot by Oct. 1, 1999

oping the pilot to examine the many factors that
ol RIK success

est RIK in the two main producing basins of Wyoming:
e Powder River basin and Big Horn Basin

ke Sweet crudes and sour asphaltic crudes

ke crude transported by Pipeline and truck

ke crude from higher productivity wells and well as
er wells

arket crude by competitive bidding/public auction
y marketing direct to refiners and other marketers

- lty Production
- 45 bbls/day in Powder River Basin
- 20 bbls/day in Big Horn Basin
- may take in-kind as much as half of that
- of Wyoming pilot: up to 4000 bbls/day
- cessary for adequate test
- rketing intelligence suggest minimum feasible contract e of 500 bbls/day
- r half of Royalty Production will remain in-value
- ovides a benchmark to test program success
- will run a minimum of two years

- **nsive discussion with regional industry in lanning process**
  - **t with producers, marketers, refiners**
  - **scussing markets, transportation, constraints, erational and management issues,**
- **ly Interactive Process will continue ghout the life of the pilot**
  - **blic meeting scheduled for February 24th in Casper, yoming -- an open forum to discuss tentative plans, e comments, ask questions, learn more, and provide curate information to producers in the area.**